Management Employees Pension Plan

1996 Annual Report

MEPP

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Italicized pension and investment terms are defined in the Glossary.

Management Employees Pension Plan

A Profile

- The Public Service Management Pension Plan was established in 1972 as a defined benefit plan for Government of Alberta employees in management positions.
- In 1994, the Government of Alberta created the Management Employees Pension Plan (MEPP) to provide (retroactive to 1992) a defined benefit plan for contributing Public Service Management Pension Plan members who were not retired and who had less than 35 years of service.
- The Plan serves 3,500 *active members*, 729 *deferred members*, 718 *pensioners* and 16 employers.
- The Plan is financed by member and employer contributions and by the investment earnings of the MEPP Fund.
- Investment Management Division of Alberta Treasury manages the Fund, which has a diversified investment portfolio of *bonds*, domestic and foreign *equity*, money market securities, mortgages and real estate.
- The Plan is administered by Alberta Pensions Administration (APA) Corporation. A former division of Alberta Treasury, APA became a provincial corporation on November 1, 1995.
- Net assets available for benefits were $1.1 billion as at December 31, 1996.

Message from the Chair

The Management Employees Pension Board endeavours to provide secure retirement benefits for Plan members. To fulfill this commitment in 1996, we addressed Plan governance issues and assessed the impact of government restructuring on our membership. We amended our investment policy to improve the performance of the Fund. We also monitored the Plan's funding status to ensure its long-term stability.

Investment Policy

The assets of the Management Employees Pension Plan Fund are invested in accordance with the *Statement of Investment Policies and Goals* established by the Board in 1995. Under this policy, the broad objective of the Fund is to earn the best investment return at an acceptable level of risk. Returns must also be sufficient to sustain long-term benefit payments. 1996 represents the investment policy's first full year of use.

We amended the policy to permit investment in a new product, the Canadian Small Capitalization Pool. The new pool allows our Fund manager, Investment Management Division (IMD) of Alberta Treasury, to take advantage of the high growth and high return opportunities in small capitalized Canadian companies. The Canadian Small Capitalization Pool is a component of Canadian Equity.

Investment Performance

The Fund earned a $164.5 million (18.3%) return on investments in 1996, reflecting a relatively strong year in capital markets. The return was above the 17.0% *policy benchmark*. Investment performance continued well above the Plan's 7.5% funding requirements and indicates the investment policy is operating well above expectations. As a result, investment experience continues to improve the funded status of the Plan.

A more detailed discussion of the performance of the Fund is provided in the Investment Report.

Plan Valuation

The Board is required to conduct an actuarial valuation at least once every three years. A valuation compares the liability — the value of the benefits promised to members — against available assets to determine the overall funding status of the Plan. The valuation is also used to arrive at the contribution rates required to pay for current service and eliminate any *unfunded liability* on pre-1992 service.

The previous valuation was conducted at the end of 1994. The Board requested its actuary, William M. Mercer Limited, conduct a valuation as at December 31, 1996 to give us a complete picture of the Plan's current funding status. The valuation revealed an unfunded liability of $91.9 million on pre-1992 service and a surplus of $5.2 million on post-1991 service for an overall unfunded liability on the Plan of $86.7 million as at December 31, 1996.

A complete report on the financial position of the Plan is provided in the Financial Statements.

Member Service

In 1996, the Board became aware of the problems faced by members who transferred from a MEPP employer to an employer in another Alberta public sector pension plan. We implemented a temporary solution by allowing affected members to remain in MEPP until December 31, 1997 provided there is no additional cost to the Plan. In the meantime, the Board is working with the actuary and other pension boards to develop a solution to this complex problem.

Communication

Communication with stakeholders continued to be a priority with the Board. We authorized production of the 1995 Annual Report and the 1995 Annual Report Highlights brochure for members. Both included a Reader Survey. Survey responses indicate recipients were generally pleased with the information provided.

The Board supported a project initiated by our administrator, Alberta Pensions Administration (APA) Corporation, to conduct a complete Communications Needs Assessment. The assessment will determine the information needs of Plan members, employers and pensioners and will be used to develop a communications plan to ensure APA provides quality information.

The Board continued to monitor the results and expected costs of APA's Business Process Re-engineering (BPR) Project. Designed to improve services, the BPR Project is currently soliciting input from stakeholders on their future needs.

A more detailed discussion of the project is provided in the Administration Report.

Board Governance

The Board adopted a Conflict of Interest Policy in 1996 to provide guidance on identifying and resolving actual or perceived conflicts between our duties as Board members and our other interests.

We also witnessed changes in membership this year. Richard Masson left the Board to pursue an opportunity in the private sector. On behalf of the entire Board, I thank Richard for his service and wish him well in his future endeavours. Tony Morehen succeeds Richard as an employee nominee. My fellow Board members and I welcome him.

Plan regulations require the positions of Board Chair and Vice-Chair alternate every two years between employer and employee nominees. To meet this commitment, the Board nominated and elected Jack Phelps and myself to the positions of Vice-Chair and Chair respectively. We look forward to leading the Board in the many challenges in 1997.

On behalf of the Board, I would like to thank MEPP members and employers for their support this year and acknowledge the staff of IMD and the staff of APA for assisting us in managing the Plan.

Dianne Keefe
Chair
Management Employees Pension Board

Management Employees Pension Board

Board Structure

The Management Employees Pension Board oversees the management of the Plan. The Board has seven members, including three employee nominees, three government nominees and one Public Service Commission nominee.

Board Responsibilities

The Board is responsible for setting policy guidelines for the investment and management of the Fund and the administration of the Plan.

The Board is also responsible for:

- advising and consulting with the Provincial Treasurer on any pension matter of interest to members or pensioners
- reviewing administration decisions and ensuring the Plan is effectively administered
- consulting with the Provincial Treasurer for an actuarial valuation at least once every three years

Board Members - 1996

Government Nominees

Dianne Keefe, **Chair**
Robert Algar
Laird Willson

Employee Nominees

Jack Phelps, **Vice-Chair**
Peggy Hartman
Tony Morehen

Public Service Commissioner Nominee

Deborah Owram **(Non-voting)**

Investment Report

Fund Management

The Board provides advice to the Provincial Treasurer who holds the assets of the Management Employees Pension Plan Fund in trust. The Treasurer delegates the day-to-day management of assets to Investment Management Division (IMD) of Alberta Treasury.

IMD has managed pension assets since 1981 when the Government of Alberta established a consolidated pension fund. When the government implemented pension reform legislation in the fall of 1993, it divided the consolidated fund into five separate Funds, one of which was the MEPP Fund. In total, IMD manages approximately $30.0 billion in assets. The Fund's market value as at December 31, 1996 was $1.1 billion.

IMD offers a wide range of investment services and products to meet the specific needs of each Fund. Given the size of the assets under its management, IMD can provide these services on a very cost-effective basis. IMD staff manages most investments directly, but where specialized knowledge and expertise are required, IMD uses *external managers*.

In 1996, IMD reviewed the use of external managers who offer specialized expertise in foreign equity markets. As a result of the review, IMD now uses narrower geographic mandates. This should enable each manager to focus his or her individual investment strengths and increase the Fund's overall investment performance.

IMD also used this specialized mandate approach to create the new Canadian Small Capitalization Pool product in the portfolio's Canadian equity component. Handled by a group of specialized external managers, this product allows IMD to take advantage of the high growth and high return opportunities in small capitalized Canadian companies.

Investment Policies and Constraints

IMD invests the Fund's assets subject to the *Statement of Investment Policies And Goals*, the investment policy established by the Board. Investment policies establish the asset mix of the Fund, the manner by which IMD may invest assets and the specific holding limits for each type of security. The most important policy relates to asset mix and establishes the long-term asset mix and the ranges for each asset class.

Investing in different asset classes such as bonds or equity presents different risks and potential returns. *Treasury bills (T-bills)* have the lowest risk; they also have the lowest long-term return. Equity traditionally has the highest long-term return and risk. On a short-term basis, however, one asset class can outperform another. A policy with a higher percentage of equity will have a greater potential for higher returns, but will experience greater swings in market value. It is therefore critical the investment policy establish a balance between the Plan's risk tolerance and return objectives.

After considering the funding requirements and financial position of the Plan, the Board adopted the following asset mix policy to generate sufficient asset growth, meet the Plan's liabilities and limit the variability of member and employer contributions.

Asset Mix (% of Fund)
as at December 31, 1996

	Policy Range Min. Max.	Policy Asset Mix	Actual Asset Mix 1996	1995
Fixed Income				
Cash & Short-term	0 - 20	3.0	1.9	6.2
Long-term	40 - 60	47.0	44.6	46.3
Total	**40 - 60**	**50.0**	**46.5**	**52.5**
Equity				
Canadian Equity	20 - 40	30.0	30.4	24.0
Foreign Equity	10 - 24	16.0	21.2	21.4
Real Estate	0 - 8	4.0	1.9	2.1
Total	**40 - 60**	**50.0**	**53.5**	**47.5**

IMD and the Board discuss on an on-going basis the overall investment program including the asset mix and the use of specific investment strategies. IMD can adjust the amounts of each asset class within the ranges to respond to market conditions and take advantage of expected market performance. IMD started 1996 with a higher percentage of bonds relative to equity. Over the course of the year, it shifted the Fund to a higher percentage in equity. This shift reflected the expectation that the strong relative performance of bonds over the last 15 years would wane and equity would outperform bonds in the future.

Investment Performance

Measuring Performance

IMD provides the Board with quarterly reports on investment performance and a formal investment review at least annually. The Board evaluates the Fund's investment performance to see how it affects the security of benefits, whether it meets the expectations of the investment policy and whether it reflects cost-effective asset management.

To measure performance, the long-term asset mix policy and the *benchmark* indices for each major asset class are combined to produce a policy benchmark return for the Fund. The policy benchmark provides a reference point for discussing Fund performance with the Board and identifying areas of strength and weakness. It is expected the Fund will earn at least a 4% annualized *real rate of return* over rolling four-year periods.

IMD makes comparisons on an annual and a cumulative (one-, four- and eight-year) basis. The focus is on the four-year period to evaluate the Fund's long-term performance. In addition, IMD measures the individual asset classes in the Fund against established market benchmarks — it measures the Fund's long-term fixed income asset class against the *ScotiaMcLeod Bond Universe Index*; it measures the Canadian equity asset class against the *TSE 300 Index*.

Asset Class Performance

Relative to Benchmarks

	1996 %	1995 %	1994 %	1993 %
Short-term	6.9	7.2	4.9	7.0
ScotiaMcLeod 91-day T-Bill Index	5.0	7.6	5.4	5.5
Fixed Income	12.2	20.5	- 2.9	16.9
ScotiaMcLeod Bond Universe Index	12.3	20.1	- 4.6	17.1
Canadian Equity	39.2	17.3	2.2	25.4
TSE 300 Index	28.4	14.6	- 0.2	32.4
Foreign Equity	13.3	16.7	2.8	27.5
Morgan Stanley World Index	14.0	17.7	11.4	27.8
Real Estate	6.4	7.8	2.9	-18.3
Frank Russell Commercial Property Index	7.0	5.0	1.9	- 6.5
Total Fund	**18.3**	**17.7**	**0.1**	**19.1**
Policy Benchmark Return	17.0	–	–	–
SEI Balanced Fund Manager Median	18.8	17.4	- 0.7	21.4
Consumer Price Index (CPI)	1.6	0.2	1.7	2.1

Compound Annualized Return

Ending December 31, 1996

	1YR %	2YR %	3YR %	4YR %	8YR %
Short-term	6.9	7.1	6.4	6.5	8.7
ScotiaMcLeod 91-day T-Bill Index	5.0	6.3	6.0	5.9	8.2
Fixed Income	12.2	16.3	9.5	11.3	12.1
ScotiaMcLeod Bond Universe Index	12.3	16.4	9.0	11.2	12.1
Canadian Equity	39.2	27.7	18.6	20.2	11.6
TSE 300 Index	28.4	21.3	13.7	18.1	10.5
Foreign Equity	13.3	15.0	10.7	14.7	14.9
Morgan Stanley World Index	14.0	15.7	14.2	17.5	10.9
Real Estate	6.4	7.1	5.7	- 0.9	2.4
Frank Russell Commercial Property Index	7.0	6.0	4.6	1.7	2.7
Total Fund	**18.3**	**18.0**	**11.7**	**13.5**	**12.1**
Policy Benchmark Return	17.0	–	–	–	–
SEI Balanced Fund Manager Median	18.8	18.3	11.5	14.3	12.2
Consumer Price Index (CPI)	1.6	1.7	1.2	1.3	2.7

All income figures in this report are *time-weighted.*

Investment Report

1996 Fund Performance

The Fund earned a $164.5 million (18.3%) return on investments in 1996, reflecting a relatively strong year in capital markets. The return was above the 17.0% policy benchmark. Investment performance continued well above the Plan's 7.5% funding requirements and indicates the investment policy is operating well above expectations. As a result, investment experience continues to improve the funded status of the Plan.

In December 1995, the Board recommended the new investment policy; this year marks its first full year of use and the starting point for evaluating the Fund's long-term performance. 1996 was also the first year of the four-year measurement period.

1996 results were ahead of the policy benchmark return primarily because of investment decisions at the individual asset class level. The returns were generally in-line with the benchmark indices and accompanied a strong performance from Canadian equity. While the Fund had roughly the same total equity exposure throughout 1996, it was overweighted in foreign equity and underweighted in Canadian equity relative to the asset mix policy.

1996 was an unusual investment year, however, in that the Canadian equity market led nearly all others. As a result of the actual equity mix, the Fund made less on Canadian equity than was possible under the investment policy. IMD's decision to underweight Canadian equity was a function of the limits of the Canadian domestic market, which represents less than 3.0% of the world equity market and is heavily skewed toward a few industries. By maximizing foreign equity, IMD aims to capitalize on a larger number of growth opportunities in other countries and industries.

This is a long-term strategy. By maintaining a broad diversification in foreign equity, IMD can achieve higher returns without greatly increasing risk. There may be times, as in 1996, when the Canadian equity market leads all others, resulting in some short-term underperformance. Over time, however, IMD expects to see higher returns from foreign equity markets and to add value to the long-term performance of the Fund.

Investment Strategy

As 1996 progressed, IMD took advantage of rallies in the bond markets to move the Fund further into equity, ending the year overweight in equity relative to the asset mix policy.

At this time, IMD continues to favour equity over bonds due to the nature of bond returns; when interest rates rise, bond value falls. IMD expects interest rates on fixed income securities to remain at best within a relatively narrow range with potential for higher rates. IMD believes it can make better gains in the equity markets than in fixed income over the long term.

The U.S. equity segment within the Fund's foreign equity component emphasizes investment in smaller capitalized companies. In the U.S. equity market, however, investors have focused on a few large capitalized companies. Given the relatively high valuations put on these companies, IMD expects the focus to change in 1997 and therefore to see additional gains in this segment.

Individual Asset Class Performance

Short-term Investments

Short-term interest rates declined over the year with the yield on 91-day T-bills declining from 5.5% to 2.8%. The return over the course of the year as measured by the *ScotiaMcLeod 91-day T-Bill Index* was 5.0% while the Fund's short-term fixed income investments generated a return of 6.9%.

Long-term Fixed Income

IMD invested this component of the portfolio primarily in publicly traded bonds, but the component also includes privately issued debt, mortgages and *real return bonds*. Long-term interest rates also declined through the year with the yield on 10-year government bonds declining from 7.1% at the end of 1995 to 6.4% at the end of 1996.

The *total return* for the Fund's long-term fixed income component closely matched the 12.3% *ScotiaMcLeod Bond Universe Index* return at 12.2% for the year. The publicly traded portion of the portfolio returned 12.1% for the year; the private debt portion, 12.3%; the mortgage portfolio, 14.1%.

Canadian Equity Component

The Canadian equity market did well in 1996 with the *TSE 300 Index* returning 28.4%. The Fund's Canadian equity component outperformed the benchmark with a strong 39.2% return, led by the 40.4% return on the publicly traded portfolio. The relatively strong performance of *interest rate-sensitive equity* was an important contributor to the component's positive overall return.

Foreign Equity Component

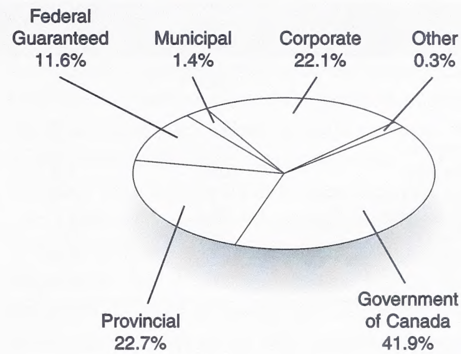
The foreign equity component had mixed results in 1996. The *Morgan Stanley World Index* returned 14.0% while the Fund's foreign equity returned 13.3%. Within the portfolio, the non-North American component did better against the benchmark. The Global Structured Equity Pool showed the best performance, returning 18.0% for the year.

The U.S. portion did not do well against its benchmark; the 23.0% *Standard & Poor's 500 Index* return outperformed the Fund's 14.8% return on U.S. equity. IMD believes this performance gap will close in 1997.

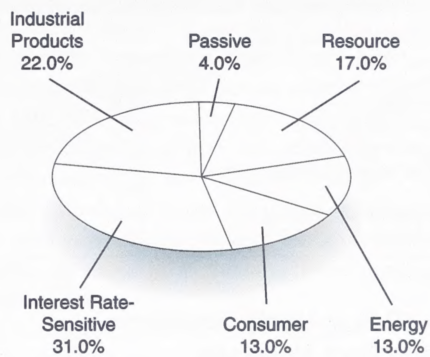
Real Estate

The real estate sector continued its slow recovery in 1996; the *Frank Russell Commercial Property Index* returned 7.0%, slightly ahead of the 6.4% Fund return.

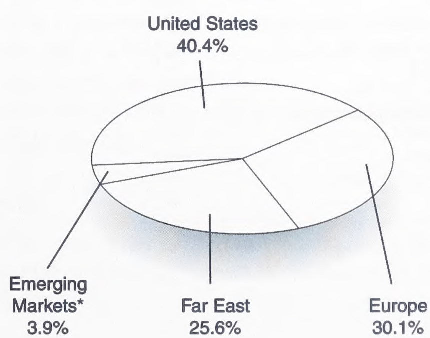
Summary of Bond Holdings



Industry Breakdown of Canadian Equity



Distribution of Non-Canadian Equity



* An emerging market is an economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Investment Report

Top 10 Canadian Equity Pool Holdings

Company	Market Value ($ millions)	% of Pool Holding
BCE	168.6	5.1
CIBC	120.9	3.7
Royal Bank	117.8	3.6
Toronto Dominion	110.9	3.4
Bank of Montreal	109.0	3.3
Seagrams	108.2	3.3
Bank of Nova Scotia	96.3	2.9
Canadian Pacific	95.5	2.9
Northern Telecom	92.2	2.8
IMASCO	72.1	2.2

Top 10 U.S. Equity Pool Holdings

Company	Market Value ($ millions)	% of Pool Holding
Healthcare Compare Corp.	56.5	5.2
General Electric Co.	43.7	4.0
Thermolase	41.7	3.8
US Robotics Corp.	39.6	3.6
Gtech Holdings Corp.	36.5	3.3
Schlumberger Ltd.	35.4	3.2
Federal National Mortgage Assoc.	34.0	3.1
IBM	29.4	2.7
Walt Disney Co.	26.3	2.4
Intel Corp.	25.7	2.3

Top 10 Non-North American Equity Pool Holdings

Company	Market Value ($ millions)	% of Pool Holding
Sony Corp.	17.1	1.3
HSBC HLDGS	16.1	1.2
Matsushita Elec. Ind.	15.6	1.2
Novartis AG	14.1	1.1
Nippon Tel. and Tel.	12.7	1.0
Cheung Kong (Holdings)	12.0	0.9
Swire Pacific	10.0	0.8
Elf Aquitaine	9.7	0.7
Hutchinson Whampoa	9.4	0.7
Bayer AG	9.4	0.7

Challenges for 1997

IMD will continue developing investment products in 1997 that provide pension funds the opportunity to seek enhanced returns consistent with their stated investment policies.

IMD will look at strengthening its internal organization and operations to improve existing products and maximize the effective use of information and technology. It will also add resources to the asset allocation decision process and set up a systems unit to consolidate the processing of transactions and reporting.

These efforts reflect the determination to provide the investment management expertise and information the Board needs to meet its fiduciary responsibility.

S.J. Susinski
Chief Investment Officer
Investment Management Division
Alberta Treasury

Administration Report

Alberta Pensions Administration (APA) Corporation administers the Management Employees Pension Plan. APA is one of the largest public sector pension plan administrators in Canada, administering eight statutory pension plans for five pension boards and the Government of Alberta.

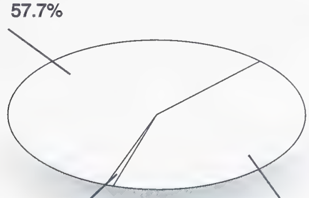
APA is a provincial corporation guided by a Board of Directors, which includes representatives from private enterprise, the pension boards and the Government of Alberta. It serves approximately 540 employers, 117,000 active members and 44,000 pensioners.

Statistics on the administration of the Plan in 1996 are provided in graphics throughout this section. APA included prior year information where appropriate.

Contributions

($ millions) Total: $37.1

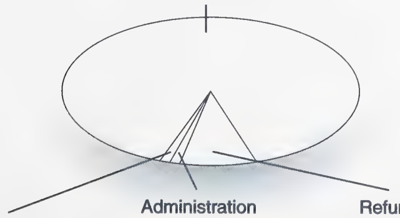
The chart below is a breakdown of member, employer and government contributions. The total does not include revenue from Fund investments.



Payments

($ millions) Total: $24.5

The chart below is a breakdown of Plan payments, the bulk of which were made to pensioners.



Accomplishments in 1996

Services

As part of its administration of the Management Employees Pension Plan, APA collects contributions, keeps accurate and secure records and pays benefits to pensioners and terminating members. APA also provides Plan information to members and employers.

In 1996, APA issued enhanced Member Annual Statements that included personalized benefit information for all active members. For the first time, members received estimates of both termination and retirement benefits along with pensionable service, contribution and salary details. Feedback from recipients was positive.

In response to comments from employers, APA amalgamated the enquiries and benefit calculation units. In contrast to previous years, clients now communicate with the same person whether they write or call. APA assigned specific staff to work on each plan; employers can now call one number to receive information on any service provided.

APA also introduced a new telephone system with features such as direct dial to staff, automated call distribution for enquiries and new toll-free numbers for clients.

Other accomplishments in 1996 included:

- a comprehensive quality assurance audit to identify and address areas of operational risk
- enhanced computer programs to improve the quality of information given to the actuary
- positive response from a small group of employers involved in a test of on-line access to data, transactions and calculations
- 338,000 microfiche pension records copied and stored off-site

Costs

In 1996, total Plan administration expenses were $494,000 or $102 per member. Of this, APA charged $289,000.

Additional information on administration expenses is available in the Financial Statements.

Administration Report

Three-Year Business Plan

Good business requires planning. APA regularly reviews and updates its three-year Business Plan. The plan developed this year for 1997-1999 included two initiatives — the Business Process Re-engineering (BPR) Project and Communications.

Participation

	1996	1995
Active Members	3,500	3,696
Deferred Members	729	575
Pensioners	718	549
Total	**4,947**	**4,820**

New Pensioners

	1996	1995
Retirements	162	134
Disability Retirements	0	0
Death Benefits to Spouses	3	8
Total	**165**	**142**

New Retirement Options

as at December 31

	1996	1995
Single Life	5	6
Joint Life	150	122
Guaranteed Terms	10	14
Total	**165**	**142**

Monthly Payment Distributions

as at December 31, 1996

Dollar Value ($) Per Month	Member Pensions	Spouse's Pensions	Total
1 to 999	48	3	51
1,000 to 1,999	154	12	166
2,000 to 2,999	187	6	193
3,000 to 3,999	195	1	196
4,000 and over	112	0	112
Total	**696**	**22**	**718**

Business Process Re-engineering (BPR) Project

Many of the planned improvements to services are detailed in APA's multi-year Business Process Re-engineering (BPR) Project, which aims to streamline APA's business practices and make improvements to its computer systems.

APA completed the analysis and documentation of all current administrative procedures and tools and commissioned an audit to ensure BPR's success.

The audit suggested APA confirm its vision for the organization with its clients. In November, this process began and will ultimately include:

- interviews with the boards, employers and members to identify their needs
- a draft Business Vision to ensure APA is on target
- confirmation of the completed Business Vision with the pension boards

When the audit is finished in April 1997, APA expects to move BPR into the next stage of development — the design of new business processes. APA is committed to improving service for everyone by using the right balance of technology and people.

Communications

APA provides information to members to help them understand their Plan and make informed choices about the future. It endeavours to keep employers up to date on the activities and events that affect pension administration and works hard preparing for the future information needs of clients.

APA commissioned a Communications Needs Assessment in late 1996 to do just that. The study is gathering data on clients' current needs and what they require in the future. With this data in hand, APA will create a three-year corporate communication strategy in 1997.

Performance Measurements

Each year, APA participates in a nation-wide survey of public sector pension administrators known as the Quantitative Service Measurement (QSM) Survey. The survey is administered by Corden Consultants and compares APA's costs and service delivery times against that of other large pension administrators.

1996 results show APA is one of the most cost-effective pension plan administrators of its size and service response times compare favourably with other QSM participants.

To determine performance, APA tracks 39 different services every month. Over the course of the year, APA met its performance standards more than 90% of the time. APA continues to challenge its staff to meet these standards all of the time.

APA also surveys employers' satisfaction levels on an annual basis. Results for 1996 show that public sector employers are generally satisfied with pension services. There is, however, a trend developing toward lower levels of satisfaction than was reported in the past. One of the main reasons for this is the increased demand placed on employer organizations and resources.

Corporate Developments

Plans for APA's incorporation took a new direction in 1996. Following talks with the pension boards and the Provincial Treasurer, the corporation's sale was postponed until 1999.

APA witnessed change in its management team. With the resignation of its Chief Executive Officer in September, the APA Board created a new position of Chief Operating Officer to lead the corporation. Two key senior directors were also appointed: Jill Wlosek was promoted to the position of Director Operations and Corporate Secretary; John Ziarko was promoted to the position of Secretary, Public Service, Management Employees and Special Forces Pension Boards.

Challenges for 1997

To achieve the goals set in its three-year Business Plan, APA has developed a budget and set objectives for 1997. These include plans to:

- continue streamlining administration processes
- enhance quality assurance measures
- rewrite members' handbooks
- stabilize the computer systems to ensure their efficient operation during BPR development
- establish strategic focus groups to obtain client input
- develop Member Annual Statements for deferred members
- investigate use of the Internet

Guided by its mission, APA will continue to provide cost-effective, high quality administrative service to employers, members and the Management Employees Pension Board.

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Acknowledgements

APA wishes to acknowledge the support of MEPP employers throughout 1996. Plan employers are a critical link in the delivery of timely information and service to members. APA's partnership with them made its performance and cost-effective administration of the Management Employees Pension Plan possible.

Actuarial Cost Certificate

The most recent valuation of the Management Employees Pension Plan was conducted as at December 31, 1996 for the purpose of providing the Management Employees Pension Board with information necessary for the reporting of pension obligations in the financial statements of the Government of Alberta and participating employers.

The actuarial valuation of the Plan was conducted using membership data and financial information supplied by Alberta Pensions Administration Corporation. Various tests were performed on the data to ensure validity and reasonableness of results, as well as to perform a reconciliation of results since the previous valuation as at December 31, 1994. In our opinion, the data is sufficient and reliable for the purposes of the actuarial valuation.

The actuarial cost method utilized in the valuation was the Projected Unit Credit Actuarial Cost Method. The asset valuation method adopted was based on the market value of assets with a smoothing adjustment intended to smooth out market volatility at the valuation date. Under this method, unrealized capital gains and losses are recognized over a three-year period starting with the year they arise.

The market values and unrealized capital gains and losses were provided by Alberta Pensions Administration Corporation. We have relied on this information in determining the actuarial value of assets at the valuation date.

In our opinion, the methods employed conform to the requirements of the Canadian Institute of Chartered Accountants Public Sector Accounting Recommendations regarding the financial reporting of Employee Pension Obligations (CICA PS3250).

The table to the right briefly summarizes the assumptions employed in the actuarial valuation. In our opinion, these assumptions are, in aggregate, reasonable for the purposes of the valuation. Nonetheless, emerging experience may differ from the assumptions and the resulting gains or losses will be revealed in future valuations.

Description	As at December 31, 1996
Investment Return	7.5%
Price Inflation	
1997	2.0%
1998	2.5%
1999	3.0%
	3.5% thereafter
Salary Escalation	
1997	2.0%
1998	2.5%
	thereafter, inflation plus Merit and Promotion
Increase in Revenue Canada Earnings Limits	4.0% per annum, with first increase in calendar year 2005
Merit and Promotion (Sample Rates)	
Age 20	2.5%
Age 30	2.5%
Age 40	2.0%
Age 50	1.5%
Retirement Rates	
Age 55	17.1%
Age 56	9.6%
Age 57	8.5%
Age 58	10.4%
Age 59	10.7%
Age 60	13.0%
Age 61	13.5%
Age 62	13.1%
Age 63	17.0%
Age 64	20.9%
Age 65+	100.0%
Mortality	1983 Basic GAM83, Projected 25 years for actives Projected 10 years for inactives
Termination Rates (Sample Rates)	
Age 20	6.0%
Age 30	9.0%
Age 40	7.5%
Age 50	4.5%
Age 55	0.0%
Percent Electing Deferred Pension	75%
Disability Incidence	None
Proportion Married at Retirement or Death Before Retirement	90%
Spousal Age Difference	Male 4 years older
Cost-of-Living Increases	60% of Price Inflation
Expenses	0.2% of pensionable earnings
Actuarial Cost Method	Projected Unit Credit
Payroll Growth for Calculation of P.V. of Additional Contributions	1997 - 0.5% 1998 and thereafter - 0.5% plus inflation
Asset Valuation Method	Market Related Value of Assets, with unrealized capital gains and losses recognized over three years, plus the present value of prior service payments owing

Actuarial Valuation Results

Balance Sheet as at December 31, 1996
($ millions)

	Pre-1992	Post-1991	Total
Actuarial Value of Assets	$ 767.1	$ 214.0	$ 981.1
Actuarial Liabilities	859.0	208.8	1,067.8
Surplus (Unfunded Liability)	$ (91.9)	$ 5.2	$ (86.7)

In our opinion:

- the data upon which this valuation is based are sufficient and reliable;
- the assumptions are, in aggregate, reasonable for the purposes of the valuation; and
- the methods employed conform with the requirements of the Canadian Institute of Chartered Accountants Public Sector Accounting Recommendations regarding the financial reporting of Employee Pension Obligations (CICA PS3250);
- the present value of additional payments for service before January 1, 1992 exceeds the unfunded actuaries liabilities for this service.

This certificate is an extract from the formal actuarial report which was prepared in accordance with accepted actuarial practice. The valuation has been conducted and these opinions given in accordance with accepted actuarial practice.

Respectfully submitted,

Donald G. Tettmar, F.S.A., F.C.I.A.
William M. Mercer Limited

Malcolm Kern, F.S.A., F.C.I.A.
William M. Mercer Limited

Management's Responsibility for Financial Reporting

The financial statements and information in the 1996 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration Corporation and have been approved by management and the Board.

The financial statements have been prepared in conformity with generally accepted Canadian accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 1996 Annual Report that relates to the operations and financial position of the Management Employees Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards and procedures and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of operations, investments and financial statements. His examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures which allow him to report on the fairness of the financial statements prepared by management.

Dianne Keefe

Dianne Keefe
Chair
Management Employees Pension Board

S.J. Susinski
Chief Investment Officer
Investment Management Division
Alberta Treasury

George Buse
Chief Operating Officer
Alberta Pensions Administration Corporation

Auditor's Report

To the Provincial Treasurer

I have audited the statement of accrued pension benefits and net assets available for benefits of the Management Employees Pension Plan as at December 31, 1996 and the statement of changes in net assets available for benefits for the year then ended and the statements of changes in accrued pension benefits and changes in deficiency for the two years then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
June 26, 1997

STATEMENT OF ACCRUED PENSION BENEFITS AND NET ASSETS AVAILABLE FOR BENEFITS

As at December 31, 1996
($ thousands)

	1996	1995
Accrued Pension Benefits		
Actuarial value of accrued pension benefits	$ 1,065,853	$ 960,753
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 1,060,410	$ 885,221
Accrued investment income	384	993
Contributions receivable (Note 6)	2,889	608
	1,063,683	886,822
Liabilities		
Accounts payable (Note 7)	280	588
Net assets available for benefits	1,063,403	886,234
Actuarial asset value adjustment	(84,100)	(42,097)
Actuarial value of net assets available for benefits	979,303	844,137
Excess of actuarial value of accrued pension benefits over net assets (Note 10)	**$ 86,550**	**$ 116,616**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31, 1996
($ thousands)

	1996	1995
Increase in assets		
Investment income (Note 8)	$ 164,541	$ 131,353
Interest on Province of Alberta receivable	–	167
Contributions		
Current and past service		
Employers	15,519	16,810
Employees	14,107	13,840
Unfunded liability		
Employers	5,905	5,148
Employees	1,276	1,186
Transfers from other plans	273	753
	37,080	37,737
Total increase in assets	201,621	169,257
Decrease in assets		
Benefits	21,561	16,327
Refunds to members	1,935	1,968
Transfers to other plans	462	952
Administration expenses (Note 9)	494	541
Total decrease in assets	24,452	19,788
Change in net assets for the year	177,169	149,469
Net assets available for benefits at beginning of year	886,234	736,765
Net assets available for benefits at end of year	**$1,063,403**	**$ 886,234**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

For periods ended December 31, 1996
($ thousands)

	Two years ended December 31, 1996			Three years ended December 31, 1994
	Pre-1992	Post-1991	Total	Total
Increase in accrued pension benefits				
Interest accrued on benefits	$ 126,300	$ 20,600	$ 146,900	$ 212,384
Benefits earned	–	70,400	70,400	120,223
Increase in accrued pension benefits	126,300	91,000	217,300	332,607
Decrease in accrued pension benefits				
Net benefits paid	33,300	2,500	35,800	10,712
Net experience gains (losses)	(13,300)	11,100	(2,200)	60,412
Changes in actuarial assumptions	1,800	(4,600)	(2,800)	61,810
Present value of prior service payments due	–	(2,600)	(2,600)	4,449
Decrease in accrued pension benefits	21,800	6,400	28,200	137,383
Net increase in accrued pension benefits	104,500	84,600	189,100	195,224
Accrued pension benefits, beginning of period	752,571	124,182	876,753	681,529
Accrued pension benefits, end of period (Note 10)	**$ 857,071**	**$ 208,782**	**$ 1,065,853**	**$ 876,753**

See accompanying notes and schedules.

STATEMENT OF CHANGES IN DEFICIENCY

For periods ended December 31, 1996
($ thousands)

	Two years ended December 31, 1996			Three years ended December 31, 1994
	Pre-1992	**Post-1991**	**Total**	**Total**
Deficiency, beginning of period	$ 120,061	$ 2,100	$ 122,161	$ 158,000
Net increase in net assets available for benefits	(215,184)	(111,454)	(326,638)	(248,765)
Net increase (decrease) in actuarial asset value adjustment	82,491	19,436	101,927	(17,827)
Net increase in accrued pension benefits	104,500	84,600	189,100	230,753
Deficiency (surplus), end of period	**$ 91,868**	**$ (5,318)**	**$ 86,550**	**$ 122,161**

See accompanying notes and schedules.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 1996

Note 1 Summary Description of the Plan

The following description of the Management Employees Pension Plan is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 367/93.

(a) General

The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies including the Metis Settlements Transition Commission. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992 continue as members of this Plan.

(b) Funding

Current service costs are funded by employer and employee contributions at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at December 31, 1996 are 8.0% of pensionable salary for employers and 7.0% for employees. The rates are to be reviewed at least once every three years by the Provincial Treasurer based on the recommendations of the Plan's actuary.

The unfunded liability for service prior to January 1, 1992 as determined by actuarial valuation is financed by additional contributions from employers and employees. The rates are set so that additional contributions will eliminate the unfunded liability on or before December 31, 2043. Transitional rates based on the pensionable salary are 2.75% for employers and 0.75% for employees.

Note 1 Summary Description of the Plan (continued)

(c) Retirement Benefits

The Plan provides for a pension of 2.0% of the five highest consecutive years of average salary for each year of pensionable service. The maximum pensionable service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60 or age 55 and the sum of their age and service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 years and the 80 factor is not attained.

(d) Disability Benefits

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service, a surviving spouse may choose to receive a survivor pension. For a beneficiary other than a spouse, or where service is less than five years, a lump sum payment must be chosen.

(f) Termination Benefits

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a refund or a deferred pension. A refund is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. Refunds are subject to the Plan's lock-in provisions.

Note 1 Summary Description of the Plan (continued)

(g) Guarantee

Payment of all benefits arising from service before 1994 is guaranteed by the Province of Alberta.

(h) Prior Service and Transfers

All prior service purchases are to be cost-neutral to the Plan.

All existing reciprocal agreements were terminated in 1994. New reciprocal agreements were or are being renegotiated to provide that transferred-in service be on an actuarial reserve basis and transfers out receive the greater of the termination benefits or commuted value for all service.

(i) Cost-of-Living Adjustments

Pensions payable are increased each year by an amount equal to at least 60% of the increase in the Alberta Consumer Price Index.

(j) Income Taxes

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year. They do not reflect the funding requirements of the Plan or the benefit security of individual participants.

The majority of Plan investments are held in pooled investment funds established and administered by the Provincial Treasurer. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The Plan's respective percentage ownership in pooled investment funds at December 31 was as follows:

	% Ownership	
	1996	**1995**
Canadian Dollar Public Debt Pool	7.3	6.9
Canadian Pooled Equity Fund	8.8	-
External Managers Fund	7.6	5.5
Global Structured Equity Pooled Fund	7.7	6.5
Private Debt Pool	7.4	6.2
Private Equity Pool	8.0	7.8
Private Mortgage Pool	6.6	4.5
Private Real Estate Pool	6.4	6.3
United States Pooled Equity Fund	7.3	7.3

NOTES TO THE FINANCIAL STATEMENTS

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs.

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

The fair value of private equities is estimated by management.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised at least every three years by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

(c) Actuarial Value of Net Assets Available for Benefits

To moderate the effects of market volatility on investment value, annual net unrealized gains and losses are amortized equally over three years. In 1995, the adjustment represents the difference between management's best estimate of the average return and the actual return on assets over the past five years.

(d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At the year-end the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

(f) Derivative Financial Instruments

Income and expense on index swaps and interest rate swaps are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value.

NOTES TO THE FINANCIAL STATEMENTS

Note 3 Investments (Schedules A to C)

Investments are summarized as follows at December 31:

	1996		1995	
	($ thousands)	%	($ thousands)	%
Deposit in the Consolidated Cash Investment Trust Fund[(a)]	$ 19,871	1.9	$ 54,862	6.2
Fixed Income Securities				
Canadian Dollar Public Debt Pool (Schedule A)	411,210	38.8	364,560	41.2
Private Debt Pool[(b)]	12,227	1.2	7,656	0.8
Private Mortgage Pool[(c)]	31,113	2.9	16,827	1.9
Real Rate of Return Bonds[(d)]	18,476	1.7	16,647	1.9
Total deposit and fixed income securities	492,897	46.5	460,552	52.0
Canadian Equities				
Canadian Pooled Equity Fund (Schedule B)	290,486	27.4	–	–
External Managers Fund (Small Cap) (Schedule C)	23,316	2.2	–	–
Public, direct (Schedule B)	–	–	199,865	22.6
Private Equity Pool[(e)]	8,269	0.8	7,160	0.8
Foreign Equities				
External Managers Fund (Global) (Schedule C)	110,526	10.4	100,063	11.3
Global Structured Equity Pooled Fund[(f)]	40,972	3.8	25,279	2.9
United States Pooled Equity Fund[(g)]	51,829	4.9	45,929	5.2
External Managers Fund (United States) (Schedule C)	21,908	2.1	18,233	2.0
Private Real Estate Pool[(h)]	20,207	1.9	18,521	2.1
Total equities	567,513	53.5	415,050	46.9
Balanced Funds				
External Managers Fund (Balanced Fund) (Schedule C)	–	–	9,619	1.1
Total Investments	**$ 1,060,410**	**100.0**	**$ 885,221**	**100.0**

Note 3 Investments (Schedules A to C) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Private Debt Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded bond market over a five- to ten-year period. The portfolio is comprised of high quality Canadian private placement fixed income securities. Risk is reduced by limiting investments to instruments with a credit rating of A or higher. As at December 31, 1996, securities held by the pool have an average effective yield of 7.06% per annum based on market (1995: 8.02% per annum). Approximately 96% of the securities held will mature between one and ten years (1995: 90%).

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded bond market over a five- to ten-year period. The portfolio is comprised primarily of high quality commercial mortgage loans. Risk is reduced by limiting investments to include only NHA insured loans and first mortgage loans that provide diversification by property usage. The pool does not invest in mortgages on single family houses, hotels, motels, trailer parks or recreational properties. As at December 31, 1996, mortgages held by the pool have an average effective yield of 8.58% per annum based on market (1995: 9.41%). Approximately 84% of the mortgages held will mature between one and ten years (1995: 92%).

(d) Bonds are issued or guaranteed by the Government of Canada, bear interest at a fixed rate adjusted for inflation and have terms to maturity of more than 20 years.

Note 3 Investments (Schedules A to C) (continued)

(e) The Private Equity Pool is managed with the objective of providing investment returns higher than attainable from publicly traded equity indices over a five- to ten-year period. The portfolio is comprised of equity investments in companies that show higher than average growth potential. Risk is reduced by avoiding direct investments in start-up and venture capital situations and by limiting holdings in any single company.

(f) The Global Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley World Equity Index. The pooled fund provides exposure to global markets through the use of structured investments such as foreign equity index swaps and interest rate swaps. All payments and receipts relating to swaps are in Canadian dollars. Participation in the pooled fund qualifies as a Canadian investment under the *Income Tax Act*.

(g) The United States Pooled Equity Fund is managed with the objective of providing investment returns comparable to the Standard & Poor's 500 Total Return Index over a four-year period. The portfolio is comprised of common stocks of corporations with high growth potential in the United States. Technology, consumer products, energy and financial services are the sectors emphasized by the pooled equity fund.

(h) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to returns attainable from publicly traded bond and equity markets over a five- to ten-year period. Real estate is held through intermediate companies which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the pool provides diversification from the securities market with opportunities for high returns.

Note 4 Risk Management

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return on investments. Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

In order to earn the best possible investment return at an acceptable level of risk, the Board has established a policy asset mix of 35% to 65% fixed income instruments and 35% to 65% equities. Risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Borrowing or leveraging is not allowed with the exception of pre-existing mortgages on real estate properties. Controls are in place respecting the use of derivatives. Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency.

Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate on an agreed settlement date in the future. As at December 31, 1996, the Plan's proportionate share of outstanding forward foreign exchange contracts issued by the External Managers Fund amounted to $23,202,000 (1995: $19,187,000).

Note 5 Index Swaps and Interest Rate Swaps

Pooled funds use index and interest rate swaps to enhance return. A swap is a contractual agreement between two parties to exchange a series of cash flows based on a notional amount and does not involve the exchange of the underlying principal. An index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional value. All swaps are supported by underlying securities.

NOTES TO THE FINANCIAL STATEMENTS

Note 5 Index Swaps and Interest Rate Swaps (continued)

The following is a summary of the Plan's proportionate share of the contractual notional of index and interest rate swaps held or issued by pooled funds at December 31, 1996:

	1996	1995
	($ thousands)	
Index Swaps		
Bonds (Canadian Dollar Public Debt Pool)	$ 48,944	$ 25,735
Foreign Equities (Global Structured Equity Pooled Fund)	39,570	22,109
Interest Rate Swaps		
Fixed to floating (Canadian Dollar Public Debt Pool)	11,519	–
Fixed to floating (Global Structured Equity Pooled Fund)	21,257	12,402
Total	**$ 121,290**	**$ 60,246**

Note 6 Contributions Receivable

	1996	1995
	($ thousands)	
Employers	$ 1,686	$ 375
Employees	1,203	233
	$ 2,889	**$ 608**

Note 7 Accounts Payable

	1996	1995
	($ thousands)	
Investment purchases	$ –	$ 478
Benefits	10	6
Refunds and transfers	161	35
Province of Alberta - Administration expenses	109	69
	$ 280	**$ 588**

NOTES TO THE FINANCIAL STATEMENTS

Note 8 Investment Income

	1996			1995
	Income	Change in Fair Value	Total	Total
	($ thousands)			
Deposits and Fixed Income Securities:				
Deposit in the Consolidated Cash Investment Trust Fund	$ 1,980	$ –	$ 1,980	$ 3,715
Canadian Dollar Public Debt Pool	28,889	16,761	45,650	64,296
Private Debt Pool	848	517	1,365	1,108
Private Mortgage Pool	1,991	957	2,948	2,752
Real Rate of Return Bonds	1,085	403	1,488	2,941
	34,793	18,638	53,431	74,812
Equities:				
Canadian Pooled Equity Fund	1,478	19,230	20,708	–
External Managers Fund (Small Cap)	319	1,493	1,812	–
Canadian Public Equities	4,351	56,168	60,519	27,786
Private Equity Pool	510	491	1,001	735
External Managers Fund (Global)	1,768	8,695	10,463	7,467
Global Structured Equity Pooled Fund	5,253	440	5,693	1,321
United States Pooled Equity Fund	575	5,325	5,900	5,183
External Managers Fund (United States)	359	3,316	3,675	11,799
Private Real Estate Pool	840	499	1,339	945
	15,453	95,657	111,110	55,236
Balanced Funds:				
External Managers Fund (Balanced Funds)	–	–	–	1,305
	$ 50,246	**$ 114,295**	**$ 164,541**	**$ 131,353**

Investment income is comprised of dividends, interest, rental income and other non-capital returns from assets.

Note 9 Administration Expenses

	1996	1995
	($ thousands)	
General administration costs	$ 289	$ 353
Investment management costs	179	169
Actuarial fees	26	19
	$ 494	**$ 541**

General administration costs including Board costs were charged on a cost-recovery basis by Alberta Treasury until October 31, 1995 and by Alberta Pensions Administration Corporation subsequently.

Investment management costs were charged directly by Alberta Treasury and do not include custodial and external management fees, which have been deducted in arriving at investment income.

In 1996, total administration costs of $494,000 amounted to $102 per member (1995: $122 per member).

Note 10 Accrued Pension Benefits

An actuarial valuation of the Plan was carried out as at December 31, 1996 by William M. Mercer Limited. The December 31, 1996 valuation resulted in an actuarial deficiency of $87 million as disclosed in the statement of accrued pension benefits and net assets available for benefits.

The valuation was determined as at December 31, 1996 using the projected benefit method prorated on service. The assumptions used in the valuation were developed as the best estimate of expected short-term and long-term market conditions and other future events. This estimate was, after consultation with the Plan's actuary, approved by the Management Employees Pension Board.

Note 10 Accrued Pension Benefits (continued)

The major assumptions used were:

	December 31	
	1996 Valuation	1994 Valuation
	%	%
Asset real rate of return	4.0	4.0
Inflation rate (after phasing-in)	3.5	4.0
Investment rate of return	7.5	8.0
Salary escalation rate		
Until 1998	2.0 - 2.5	0.0 - 3.0
Thereafter	3.0 - 3.5	3.0
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension liability with respect to service recognized as pensionable as at December 31, 1991. The following table summarizes the accrued pension benefits, actuarial value of net assets and the resulting actuarial surplus or deficiency at December 31, 1996:

	Pre-1992	Post-1991	Total
	($ thousands)		
Fair value of assets	$ 832,603	$ 230,800	$ 1,063,403
Actuarial asset value adjustment	67,400	16,700	84,100
Actuarial value of net assets	765,203	214,100	979,303
Accrued pension benefits	857,071	208,782	1,065,853
Actuarial deficiency (surplus)	**$ 91,868**	**$ (5,318)**	**$ 86,550**

Note 10 Accrued Pension Benefits (continued)

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

As at December 31, 1996, holding the investment return and salary escalation assumptions constant, a 1% change in the assumed long-term inflation rate would result in an increase in the deficiency of the Plan from $87 million to $168 million.

As at December 31, 1996, holding the inflation rate and investment return assumptions constant, a 1% increase in the assumed salary escalation would result in an increase in the deficiency of the Plan from $87 million to $121 million.

As at December 31, 1996, holding the inflation rate and salary escalation assumptions constant, a 1% increase in the assumed long-term investment return would result in a decrease in the deficiency of the Plan from $87 million to a surplus of $60 million.

Note 11 Comparative Figures

In 1996, investments reflect deposits, securities and units of pooled investment funds held by the Plan. Previously, the accounts of the Plan were aggregated on a line-by-line basis with the Plan's proportionate share of the assets, liabilities and net income of pooled investment funds. This change in presentation has no impact on the value of the Plan's net assets available for benefits or net investment income.

Comparative figures have been restated to be consistent with the 1996 presentation.

NOTES TO THE FINANCIAL STATEMENTS

Note 12 Budget Information

The accrued pension benefits are based on the Management Employees Pension Board's best estimates of future events. Differences between actual results and the Board's expectations are disclosed as net experience gains in the statement of changes in accrued pension benefits. Accordingly, a budget is not included in these financial statements.

Note 13 Responsibility for Financial Statements

These financial statements were prepared by management and approved by the Management Employees Pension Board.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN CANADIAN DOLLAR PUBLIC DEBT POOL

As at December 31, 1996
($ thousands)

	1996		1995	
	Plan's Share	**Total Pool**	**Plan's Share**	**Total Pool**
Deposit in the Consolidated Cash Investment Trust Fund	$ 1,900	$ 25,982	$ 5,116	$ 74,640
Fixed Income Securities				
Government of Canada, direct and guaranteed	217,488	2,974,004	215,499	3,144,039
Provincial:				
Alberta, direct and guaranteed	20,617	281,926	20,634	301,034
Other, direct and guaranteed	71,559	978,521	60,014	875,578
Municipal	5,463	74,698	6,277	91,582
Foreign	–	–	604	8,803
Corporate	90,123	1,232,365	53,426	779,465
Total deposit and fixed income securities	407,150	5,567,496	361,570	5,275,141
Receivable from sale of investments and accrued investment income	5,393	73,740	6,494	94,742
Liabilities for investment purchases	(1,333)	(18,225)	(3,504)	(51,118)
	4,060	55,515	2,990	43,624
	$ 411,210	**$ 5,623,011**	**$ 364,560**	**$ 5,318,765**

(a) The Canadian Dollar Public Debt Pool is managed with the objective of providing above-average returns over a four-year period while maintaining maximum security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt related derivatives. The excess return is expected to be achieved through management of the portfolio duration and sector rotation.

SCHEDULE A

SCHEDULE OF INVESTMENTS IN CANADIAN DOLLAR PUBLIC DEBT POOL

(continued)

(b) Fixed income securities held by the pool have an average effective yield of 5.48% per annum based on market (1995: 6.88% per annum) and the following term structure as at December 31, 1996 based on par:

	1996	1995
	%	
under 1 year	7	3
1 to 5 years	39	29
5 to 10 years	23	37
10 to 20 years	18	24
over 20 years	13	7
	100	**100**

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN POOLED EQUITY FUND

As at December 31, 1996
($ thousands)

	1996		1995
	Plan's Share	**Total Pool**	**Plan's Holdings**[b]
Deposit in the Consolidated Cash Investment Trust Fund	$ 2,643	$ 29,945	$ –
Canadian Public Equities			
Common shares and rights:			
Communications and media	9,870	111,841	7,063
Conglomerates	13,476	152,700	7,504
Consumer products	17,407	197,241	13,359
Financial services	55,577	629,754	34,957
Gold and precious minerals	20,745	235,060	18,868
Industrial products	43,910	497,557	27,084
Merchandising	9,460	107,193	5,125
Metals and minerals	19,898	225,470	17,906
Oil and gas	37,088	420,248	24,005
Paper and forest products	9,163	103,825	8,821
Passive	10,433	118,217	7,073
Pipelines	7,886	89,358	7,038
Transportation and environmental services	6,727	76,225	4,041
Utilities	25,039	283,724	17,021
Other	380	4,307	–
	287,059	3,252,720	199,865
Receivable from sale of investments and accrued investment income	1,136	12,873	–
Liabilities for investment purchases	(352)	(3,986)	–
	784	8,887	–
	$ 290,486	**$ 3,291,552**	**$ 199,865**

SCHEDULE B

SCHEDULE OF INVESTMENTS IN CANADIAN POOLED EQUITY FUND

(continued)

(a) The Canadian Pooled Equity Fund is being managed with the objective of providing above-average investment returns while maintaining maximum preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation.

(b) The industrial classifications are those used by the Toronto Stock Exchange.
Equities which were held directly by the Plan on December 31, 1995 and transferred into the pooled equity fund in 1996 are listed for comparison with 1996 holdings.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN EXTERNAL MANAGERS FUND

As at December 31, 1996
($ thousands)

	1996		1995	
	Plan's Share	Total Pool	Plan's Share	Total Pool
Foreign Public Equity Pools				
Multi Region	$ 42,561	$ 565,505	$ 48,585	$ 873,027
Pacific Basin	36,411	486,806	35,980	658,142
Europe, Australia and Far East	17,187	229,724	15,498	283,906
Europe	14,367	175,093	–	–
	110,526	1,457,128	100,063	1,815,075
United States	21,908	293,417	18,233	341,537
Canadian Small Cap Pools	23,316	307,056	–	–
Canadian Balanced Fund Pools	–	–	9,619	163,990
	23,316	307,056	9,619	163,990
	$ 155,750	**$ 2,057,601**	**$ 127,915**	**$ 2,320,602**

(a) The External Management Fund is managed by external managers with expertise in global equity markets and Canadian Small Cap stocks. The objective of the fund is to provide investment returns higher than the total return of the applicable Morgan Stanley, Standard & Poor and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager, style and market diversification.

SCHEDULE C

SCHEDULE OF INVESTMENTS IN EXTERNAL MANAGERS FUND

(continued)

(b) The following is a summary of assets and liabilities of the External Managers Fund as at December 31:

	1996	1995
Cash and short-term securities	$ 227,358	$ 120,128
Receivables from sale of investments and accrued investment income	13,658	17,708
Investments		
Public equities	1,833,688	2,118,631
Convertible bonds	9,552	19,874
Fixed income securities	–	64,703
Liability for investment purchases	(26,655)	(20,442)
	$ 2,057,601	**$ 2,320,602**

Glossary

TERMS

Active member

A member registered in the Plan who is making contributions, on non-contributory leave for up to three years, on approved disability leave or at the point of maximum pensionable service (35 years) and so is not contributing but is still employed.

Benchmark

A standard against which others are measured. For the purposes of this report, benchmarks are established income indices (listed in percentages) used to measure the health of the Fund's investment returns.

Bond

A promissory note issued by a company or government which bears a fixed maturity date and rate of return.

Deferred member

A member who is no longer employed by a Plan employer, has left his/her contributions in the Plan and has yet to choose a pension option.

Emerging market

An economy in the earlier stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment. Examples include China, Greece and Brazil.

Equity

Stock; the ownership interest in a company.

External manager

A third-party firm contracted to provide investment management services.

Interest rate-sensitive equity

Equity whose return is expected to react to changes in interest rates.

Passive equity

Equity bought as Toronto Index Participation Units (TIPS), allowing a fund to buy into the top 35 companies on the Toronto Stock Exchange.

Pensioner

A member who receives a pension or a beneficiary who receives death benefits.

Policy benchmark

A benchmark return for the Fund composed from the long-term asset mix policy and the benchmark indices for each major asset class.

Real rate of return

The return achieved by an asset after adjustments for inflation.

Real return bond

A fixed income investment product (a bond) whose return is linked to the real interest rate to generate a specified real rate of return.
Related terms: The real interest rate is the nominal (set) interest rate minus inflation.

Statement of Investment Policies and Goals

A policy document set by the Board to establish the asset mix of the Fund, the manner by which IMD may invest assets and the specific holding limits for each type of security.

Treasury bill (T-bill)

A short-term government paper.

Time-weighted return

A method of considering period-by-period returns without considering cash contributions to and cash withdrawals from the Fund. Time-weighted returns do not reflect the effect that cash flow has on the Fund's return.

Glossary

Total return

Interest income or loss plus price increases or decreases.

Unfunded liability

The amount still owing to the Plan. An unfunded liability exists when the actuarial valuation determines the Fund's accrued benefit payments exceed the net assets available for the payment of those benefits.

INDICES

Consumer Price Index (CPI)

Measures the relative prices at various times of a selected group of goods and services which typify those bought by urban families.

Frank Russell Commercial Property Index

Measures the total return attributable to Canadian commercial real estate. Maintained by Frank Russell, the index is compiled and reported every three months.

Morgan Stanley World Index

Measures the total return attributable to the largest capitalized companies on the world's major stock exchanges. Maintained by Morgan Stanley, the index is compiled and reported monthly in local and common currencies.

ScotiaMcLeod Bond Universe Index

Measures the total return attributable to bonds. Maintained by ScotiaMcLeod and includes representative bond issues by issuer (Federal, Provincial, Municipal and Corporate), by quality (AAA, AA, A and BBB) and term (short-, mid- and long-).

ScotiaMcLeod 91-day T-Bill Index

Measures the total return attributable to 91-day T-bills. Maintained by ScotiaMcLeod.

SEI Balanced Fund Manager Median

A reference point for measuring IMD's performance. SEI Canada Financial Services Limited conducts surveys of balanced fund managers on a quarterly basis to create the SEI Universe. From this, SEI Canada determines the median (or middle-ranked) manager.
Related terms: SEI (Canada) Financial Services Limited is an independent firm that evaluates and reports on investment performance. A balanced fund is an investment portfolio with a mix of bonds, preferred stocks and common stocks designed to conserve the investor's initial principal, pay current income and achieve long-term growth.

Standard & Poor's 500 Index

Measures the total return attributable to the 500 largest capitalized companies on U.S. stock exchanges.

TSE 300 Index

Measures the total return attributable to the 300 largest capitalized companies traded on the Toronto Stock Exchange. Maintained by the Toronto Stock Exchange, the index is compiled and reported on a daily basis. The index's composition is adjusted annually.

Directory - 1997

Board Members - 1997

Government Nominees

Dianne Keefe, **Chair**
Robert Algar
Laird Willson

Employee Nominees

Jack Phelps, **Vice-Chair**
Peggy Hartman
Tony Morehen

Public Service Commissioner Nominee

Deborah Owram **(Non-voting)**

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Board Secretary

John Ziarko
Alberta Pensions Administration Corporation

Administrator

Alberta Pensions Administration Corporation

Fund Management

Investment Management Division
Alberta Treasury

Actuary

William M. Mercer Limited

Auditor

Auditor General of Alberta